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Quarterly Bulletin on Soviet Economic Growth



First Quarter 1986

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on
Soviet Economic
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May 1986

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This bulletin was prepared by
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Economy Shows Improvement Under Gorbachev

A. Encouraging Results in First Quarter

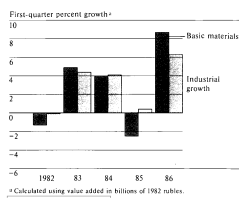
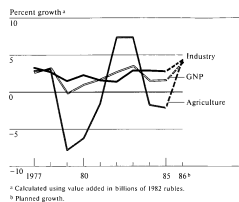
The Soviet economy was off to a strong start in first quarter 1986. Some gains were predictable since, in 1985, the coldest winter in 20 years disrupted production in most of the economy. Nevertheless, this quarter, the fourth under General Secretary Gorbachev, is also the fourth in a row to show improved results for industry. It is too early to size the impact of the April accident at the Chernobyl nuclear power plant, but fallout contamination and disruption of production in nearby areas could have some adverse consequences for agriculture and industry.

Gorbachev needs a fast start this year toward 1990 goals both to build confidence in his programs and to create dividends from growth that can be invested in the USSR's industrial base. Industry's prospects for approaching the 4.3-percent growth planned for 1986 appear good, but the nuclear accident clouds the outlook. Output of basic materials, cited by Soviet officials as sources of bottlenecks and slow industrial growth in recent years, has improved and is a positive sign. Agricultural performance, as always, will be determined largely by weather conditions through the harvest period.

D. Basic Materials Boost Industrial Growth

Output of basic materials—steel, chemicals, concrete, and other products used throughout the economy—rose sharply in first quarter 1986 compared with the same period 1985. Much of the rise reflected recovery from last year's difficulties, which hit basic materials especially hard.

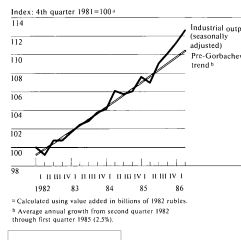
As Secretary Ligachev noted last fall, shortages of basic materials have been hindering industrial production for some years. First-quarter growth of basic materials, however, was faster than that of industry as a whole for the first time since 1983. In both 1983 and 1986, basic materials grew rapidly because they were recovering from decreases the previous year. This year's faster growth suggests that the position of basic materials industries has become stronger. Some measures begun before Gorbachev came to power helped, such as additions to capacity and renovations of existing plant. In addition, railroads improved their delivery of materials to users, as Minister Nikolay Konarev, appointed in 1983, squeezed additional capacity out of a crowded system.



B. Industry: A Fast Start

Soviet industrial production in first quarter 1986 was more than 6 percent higher than production in first quarter 1985. Part of this increase represented a rebound from last winter's unusually poor results. Nevertheless, growth from output levels of other recent quarters was still healthy, running at an annual rate of 4 1/2 to 5 percent (seasonally adjusted). Moreover, in each quarter under Gorbachev, industry has grown faster than its trend in recent years.

As usual, output of machinery, the key branch for Gorbachev's modernization program, increased faster than industrial production overall. Machinery turned in its best performance in several years, with first-quarter output increasing nearly 7 percent over the same period of 1985. Output of machine tools and computers—usually leaders within the machinery branch—accelerated, and production of equipment for agriculture and the oil industry grew rapidly as well. Machinery's growth this quarter, however, is still below the rate of roughly 10 percent needed to support the increase in investment planned for 1986.



E. Upturn for Agriculture?

The USSR made a good start toward achieving 1986 livestock production targets. Substantial feed supplies from last fall's bumper harvest of roughages and large quantities of imported grain, combined with a mild winter that reduced average feed requirements, led to record output of meat, milk, and eggs and to larger inventories of cattle, hogs, and poultry. Production of both meat and eggs on state and collective farms was up 7 percent in first quarter 1986 from the same 1985 period, and milk increased by 10 percent.

Given normal or above-normal weather conditions, crop output may improve in 1986 because: First-quarter production of chemical fertilizer and farm machinery increased markedly. More equipment was repaired and ready for field work earlier than in at least the past two years. The winter grain crop appeared to have suffered no more winterkill than average. Spring sowing progress was well ahead of last year. The Chernobyl accident could have minor negative effects on both crops and livestock. Assessment of the potential loss of output, however, is not yet possible because of insufficient information.

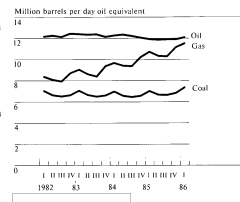
	Major Livestock Products, (State and Collective Farms)					
	1982	1983	1984	1985	1986	
First-Quarter Production						
Meat*	2,940	4,146	4,450	4,747	5,087	
Milk*	11,975	13,238	14,214	14,053	15,458	
Eggs*	11,910	12,683	13,242	13,419	14,363	

* Thousand metric tons.
* Millions of eggs.

C. Energy Picture Improves Slightly

For the first time since 1983, first-quarter production of the major fuels—oil, gas, and coal—increased from the previous year's levels. In first quarter 1986: Oil production averaged roughly 12.1 million b/d, more than 150,000 b/d higher than in the same 1985 period. Most of the increase is attributable to improvements in West Siberian oil operations, particularly in returning idle wells to production. Natural gas production, up 7 percent to 11.5 million b/d oil equivalent, continues to set records. Coal output was 7.4 million b/doe, a 5-percent increase. A comparatively mild winter contributed to this unusually good performance.

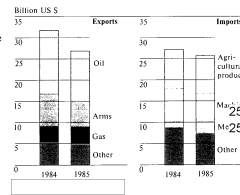
The electric power industry performed well in first quarter 1986 as production grew almost 4 percent from the same period last year. The nuclear accident at Chernobyl may disrupt power supplies. But the Soviets could compensate for some of the loss if they operate power plants using fossil fuel at full winter capacities. This would require them to forgo maintenance—normally scheduled for summer—and probably to import additional fuel, such as coal from Poland.



F. Soviets Grapple With Decline in Hard Currency Earnings

Declining earnings from oil exports took a heavy toll on the USSR's hard currency position in 1985 and are continuing to do so in 1986. Moreover, demand for Moscow's other major hard currency export, arms, is likely to remain weak this year. To cope with this setback, the Soviets are stepping up borrowing, increasing gold sales, and reducing planned hard currency imports. According to a press report, Foreign Trade Minister Arisov said hard currency purchases could be cut by as much as a third this year.

Most of the import cuts now being made appear to affect machinery for investment in future output. In the chemical and metallurgy industries, several large projects, discussed with Western firms, have been postponed, canceled, or scaled back. Reductions in nonmachinery imports appear to be affecting consumer goods more than inputs to current production, such as chemicals and specialty steels. During recent trade discussions, the Soviets said hard currency purchases of consumer goods would be practically eliminated. The pace of grain imports has in fact slowed sharply in the past few months.



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